Volume No. 1 - Policies & Procedures	TOPIC NO.	50320
Function No. 50000 —Payroll Accounting	TOPIC	TERMINATIONS
Section No. 50300— Establish/Maintain Employee Profile Information	DATE	October 2004

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Overview

Introduction	When an employee leaves employment with an agency, either through transfer to another state agency, termination of employment, retirement, or death, certain procedures must be completed prior to terminating the employee in CIPPS. If proper termination procedures are not followed, incorrect payments, incorrect reporting of state and federal taxes, and improper CIPPS file maintenance can occur. This topic provides guidelines for making final payment(s) to terminating employees and terminating their records in CIPPS.

Procedures

Discontinuing Semi-Monthly Pay	In order to ensure that the employee who is terminating or being severed does not receive their regular salary in addition to any final payments, the employee's **TIME CARD STATUS** field on H0BID should be changed to a value of **0 (Non-Auto)**.
Political Appointee Severance Payments	When political appointees separate from State Service, the Secretariat will inform the agency of any severance payment(s) due. These severance payments will be made using Special Pay 013, SEVR PAY. Contact DOA to have the Special Payment set up on the agency's company header prior to paying.
Involuntary Separation Severance Payments	The Department of Human Resource Management Policy 1.57, Severance Benefits, in conjunction with DHRM Policy 1.30, Layoff, outlines the policies pertaining to severance benefits. Severance payments for involuntary separation, whether bi-weekly or semi-monthly, are processed using Special Payment 031, INV SEP.

Procedures, Continued

Severance Benefits Deductions

Depending on the type of deduction involved and central agency policy, payroll deductions for terminating employees may require adjustments. Such adjustments may be made through deduction overrides (See Topic 50605, *Tax and Deduction Overrides*) or deduction refunds (See Topic 50705, *Employee and Tax Masterfile Updates*).

After the final payment is made to the employee, all deduction frequencies must be set to "00". The following table provides termination processing options related to the most common payroll deductions:

Deduction	Severance Procedures
Healthcare	Employees may continue to receive health insurance coverage for a period of 12 months from the effective date of separation. While the employee continues to receive severance payments, the agency and the employee pay their respective share of the healthcare premium. Once the final severance payment is made, update the HMCU1 membership type field to a LWOP code. The agency will be charged the full premium and must recoup the employee share outside CIPPS.
Dependant Care and Medical Reimbursement Account	While receiving severance benefits, contributions to Flexible Spending Accounts may continue on a pre-tax basis. Subsequently, contributions must be made on an after tax basis under "Extended Coverage."
Optional Group Life	Terminate deduction. Employee can be direct billed from vendor.
Deferred Compensation	Deferred Compensation cannot be withheld from severance payments.
403(b) Annuities	Upon request by the employee, may continue to be withheld from the severance benefits.
Miscellaneous Insurance	

Procedures, Continued

Severance Benefits Deductions (continued)

Deduction	Severance Procedures
Savings Bonds	May continue to be withheld from the severance benefits**.** Refund through payroll if there is a balance in the last five positions of the utility field on last severance payment. In order for a savings bond refund to process, the frequency must be changed to "00" while processing regular pay for the employee. If a system refund cannot process, contact the DOA Benefits Accounting Unit to initiate a manual refund.
Retirement	All retirement contributions (retirement, retiree credit, and buyback) cease once the employee is placed on severance.
Group Life	Group life insurance benefits continue for 12 months from the effective date of separation. Group life insurance coverage must be reported to VRS directly. **DO NOT CALCULATE GROUP LIFE IN CIPPS.** However, Imputed Life must continue to calculate for the employee receiving the life insurance coverage.
Long-term Disability	The long-term disability deduction must be deactivated at the time of the severance.
Court-ordered Withholdings	Court-ordered withholdings are still in force for any payments the employee may receive after severance and must be honored.

Procedures, Continued

Final Payments Final payments to terminating employees should be issued on the payday following the last period worked. Final payments include any additional regular, overtime, shift, or on-call pay due the employee for hours worked. Final payments also include the monetary value of the employees' annual, sick, (for non-VSDP participants) and/or compensatory leave balances. See DHRM Policy Nos. 3.10, 3.15, 4.10, 4.55, and 4.57 for more information concerning employee eligibility to received payments for compensable leave balances. Typically, leave balances are not paid out until the employee has exhausted severance payments.

All non-paid, taxable benefits (e.g., moving and relocation, meals, company car, etc.) should be processed before issuing the final payment. The final payment may also be the agency's best opportunity to collect additional premiums, recoup travel or other advances, other employee debts, or to complete a deduction refund. If this does not occur, manual adjustments to the employee's masterfile records may be necessary or the agency may have to collect any additional payroll taxes that may be due from the employee pursuant to the adjustment.

Leave Balances Terminating employees' leave balances will automatically zero once the employee status indicator on H0BES has been changed to a value of 3 (termination). Reference CAPP Topic No. 40210, *Leave Maintenance*.

Terminating Employee Deductions Depending on the type of deduction involved and central agency policy, payroll deductions for terminating employees may require adjustments. Such adjustments may be made through deduction overrides (See Topic 50605, *Tax and Deduction Overrides*) or deduction refunds (See Topic 50705, *Employee and Tax Masterfile Updates*).

After the final payment is made to the employee, all deduction frequencies must be set to "00".   The following table provides termination processing options related to the most common payroll deductions:

Procedures, Continued

Deduction	Termination Procedures	
Healthcare	Employee Terminates Mid-Month - complete the monthly contribution. Override the deduction on the last regular payment or take the deduction from the leave payouts. Employee Terminates at Month-End - no further action is necessary unless the employee owes premiums for a previous period that would require an override. Once final payment is made, update the HMCU1 membership type field to an E denoting a terminated status.	
Dependant Care Reimbursement Account	Complete the monthly contribution. Override the deduction on the last regular payment or take the deduction from the leave payouts.	There is no option to complete the annual election.
Medical Reimbursement Account		Employees can elect to have a lump-sum payment deducted to complete the annual election.
Optional Group Life		N/A
Deferred Compensation	Deferred Compensation can be withheld from leave payouts.	
403(b) Annuities	Miscellaneous Insurances are monthly contributions, where necessary, override the deduction on the last regular payment or take the deduction from the leave payouts. Also, lump sum contributions for annuities can be taken from leave payouts.	
Miscellaneous Insurance		
Savings Bonds	Refund through payroll if there is a balance in the last five positions of the utility field. In order for a savings bond refund to process, the frequency must be changed to "00" while processing regular pay for the employee. If a system refund cannot process, contact the DOA Payroll/Benefits Accounting Unit to initiate a manual refund.	
Parking	Determine that all appropriate parking deductions have been made. If necessary, override the deduction or take the deduction from the leave payouts.	

NOTE: "Extended Coverage" elections are handled outside of the payroll system (e.g., healthcare, optional group life, FSAs).

Procedures, Continued

Terminating Employee Deductions (continued)

Deduction	Termination Procedures
Retirement	Deactivate the deductions
Retire credit	
Group Life	
Long-term Disability	
Court-ordered Withholdings	Court-ordered withholdings are still in force for any payments the employee may receive after termination and must be honored.

Procedures, Continued

Termination Check-Off List It is recommended that agencies develop a termination check-off list to ensure that all information is complete and accurate before terminating the employee. The check-off list developed for agency use should include the following:

Regular Pay

	YES	NO
Employee Non-Auto on H0BID		
Employee due Regular Pay		
Employee due Overtime Pay		
Employee due Shift Pay		

Leave/Special Payments

Annual Leave Balances		
Sick Leave Balances/Disability Credits		
Compensatory Leave Balances		
On-Call Leave Balances		
Overtime Leave Balances		
Reportable Meals		
Company Vehicle		
Leave transactions keyed and balances reconciled		

Miscellaneous Collections

Outstanding Travel Advances		
Outstanding Uniforms, Badges, Keys, etc.		

Deductions

Healthcare Override Required		
Healthcare Refund Due		
Medical Reimbursement - Monthly Override		
Medical Reimbursement - Annual Election Override		
Dependent Care - Monthly Override		
Optional Group Life - Monthly Override		
Deferred Compensation/Annuities – Lump Sum Override		
Misc. Insurance Deductions - Monthly Override		
Savings Bonds- Refund through system		
Savings Bond - Refund outside system (Contact DOA)		
Parking - remittance complete		
Court Ordered Withholding - required on payments		
Deduction Frequencies Turned Off		

Continued on next page

Procedures, Continued

Terminating the Employee's Record

After final payments are made, voids processed, and leave balances zeroed, the employee masterfile record on H0BES can be updated to reflect the terminated status as follows:

Employment Status

Enter a value of "3" indicating the employee is terminated.

Termination Code

Enter the value indicating the reason the employee is leaving the agency.

VALUES	EXPLANATION/USE
1	Death. Use this value upon death to ensure proper W-2 reporting.
2	Discharged.
3	Retired.
4	Transferred.
5	Resigned.

Termination Date

Enter the effective date of the termination. If not entered, the system will assume the last day of the current pay period, and if salaried and automatic on H0BID, will pay the employee.

Procedures, Continued

Affect of Termination Status

When the employee status is changed to terminated, CIPPS:

- Automatically changes the payroll frequency to 99 (terminated),
- Turns off any direct deposit checking deduction, and
- *Zeroes any remaining leave balances for the employee*.

Available Reports

There are a number of reports available to help agencies track employees who have terminated and identify the period termination occurred. Reports of terminated employees who have deceased pay but are not coded as deceased, and employees who are coded as deceased but do not have deceased pay are also available. These reports are referenced in each calendar-year-end bulletin generated for w2 processing.

Internal Control

Internal Control

Agencies must verify that CIPPS information concerning terminating employees is complete, properly authorized, and entered accurately into the system. Fiscal officer must ensure that all payments have been properly and accurately issued and that any outstanding advances and/or agency property have been recovered prior to the final payment being issued to the employee.

Records Retention

Time Period

The Input Transaction Listing, Report 1001, and the Transaction Batch Balance Summary, Report 1005, must be retained for 60 days. All other reports should be retained for five (5) years or until audited, whichever is later. Agency policy and procedures determine the retention of the related agency source documents/records. See CAPP Topic No. 21005, *Records Retention and Disposition*.

Contacts

DOA Contact   Manager, State Payroll Operations
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Subject Cross References

References   CAPP Topic No. 21005, *Records Retention and Disposition*
CAPP Topic No. 50605, *Tax and Deduction Overrides*
CAPP Topic No. 50705, *Employee and Tax Masterfile Updates*